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Records First

*A Department of Revenue Initiative to Facilitate Compliance
with Electronic Records Requirements in Sales and Use Tax Audits*

Recordkeeping

The taxpayer is required to maintain suitable records for determining the taxpayer's Tennessee tax liability. If the taxpayer maintains records in an electronic format, Tenn. Code Ann. § 67-1-113 requires the taxpayer to comply with reasonable requests to provide such records in a standard record format.

Reference: *Tennessee Code Annotated, Official Edition*, Vol. 12, 2003 Replacement, Title 67, Taxes and Licenses, pg. 14.

Records First Initiative

The goal of the **Records First** initiative is to facilitate the taxpayer's compliance with Tenn. Code Ann. § 67-1-113. Obtaining records in a standard record format and verifying the data are among the most time-consuming tasks in the audit process. These problems often result in lost auditor productivity and frustrated taxpayers. The department's **Records First** initiative proactively addresses these issues prior to the start of the audit field work and, thus, may reduce the amount of time required to complete the field work.

Procedure

Before audit field work begins, the taxpayer will be contacted by an auditor from the Audit Division's Audit Support Unit. This auditor is trained in computer-assisted auditing procedures and will work with the taxpayer to ensure electronic

records are submitted in a standard electronic format and to verify the data with the taxpayer's books and records. Only after the data has been obtained and verified will the department commence field work.

Benefits of Auditing Electronic Data

Document retrieval can be costly in terms of time and effort for both the auditor and the taxpayer. Complete electronic data records can often reduce the time and effort required to retrieve documents. Such time savings benefit both the taxpayer and the auditor. Furthermore, having sufficiently rich data may enable the auditor to make tax determinations directly from the electronic data.

Data Requirements

Electronic Data File

Typically, the taxpayer submits electronic data to the department in a non-delimited, fixed width flat file format along with the record layout. Data is accepted in EBCDIC format or ASCII format.

Data Fields

In consultation with the taxpayer, the auditor identifies the data fields the taxpayer is to make available.

Record Layout

The taxpayer submits an electronic data record layout which identifies

- Start and end positions for each field
- Field length
- Field name
- Field description
- Field data type (e.g., alpha, numeric, date, etc.)

Data Media

The department accepts electronic records stored on a variety of data media such as CD, DVD, or 3490 Cartridge. The taxpayer is encouraged to consult with the department before submitting electronic data.

Electronic Data Verification

Data received from the taxpayer is verified for correctness and completeness. This is accomplished by reconciling the electronic data with the taxpayer's books and records. Selected accounts/sales in the data are totaled for a given time period (e.g., a year). The auditor compares these totals with the totals from the taxpayer's books and records. The taxpayer supplies any and

all additional records needed to reconcile differences. Timing issues, manual adjustments to accounts, etc., may cause amounts to not match perfectly. Still, the department expects the amounts to closely agree.

Confidentiality of Records

Any Department of Revenue employee with access to taxpayer data is required to maintain the data in a confidential manner. Tax information provided by the taxpayer may only be accessed, used, or disclosed in the performance of official duties strictly for the purpose of state tax administration. Access to federal or state tax information is allowed on a "need-to-know" basis to perform official duties and may only be disclosed to other employees of the department who have a "need to know" the information in the performance of their official duties. Disclosure restrictions continue to apply even after employment with the Tennessee Department of Revenue ceases.

For More Information

The Tennessee Department of Revenue welcomes questions and comments.

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